

Message Text

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PAGE 01 LIMA 07846 222259Z

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SUBJ: MARCONA PROBLEM - AMBASSADOR'S DISCUSSIONS WITH
SENIOR GOP OFFICIALS

REF: LIMA 7828

1. I HAD THE OPPORTUNITY TO DISCUSS THE MARCONA PROBLEM AT LENGTH AT SOCIAL FUNCTIONS OVER THE WEEKEND WITH FONOFFICE UNDERSECRYTARY FOR ECONOMIC EFFAIRS, AMBASSADOR DE LA PUENTE, AND COMMERCE MINISTER ARIAS GRAZIANI, AND THIS MORNING (SEPTEMBER 22) DURING A COURTESY CALL ON PRIME MINISTER VARGAS PRIETO. IT IS CLEAR FROM THESE CONVERSATIONS THAT THE GOP IS RELYING HEAVILY ON FON MINISTER DE LA FLOR'S CONVERSATION WITH SECRETARY KISSINGER SCHEDULED FOR WEDNESDAY, SEPTEMBER 24, TO ENLIST USG INTERVENTION TO PULL THEIR CHESTNUTS OUT OF THE FIRE. IN ALL THREE CONVERSATIONS GOP REPRESENTATIVES RECOGNIZED ERROR OF EXPROPRIATION DECREE BUT ALSO MADE PLEA ON GROUNDS DOMESTIC POLITICAL CONSIDERATIONS THAT USG INTERVENE TO ENCOURAGE MARCONA "TO BE REASONABLE," I.E. TO ACCEPT SOLUTION WITHOUT COMPENSATION FOR SAN NICOLAS.

2. IN EVERY CASE I REITERATED USG'S STRONG INTEREST IN THIS PROBLEM AND OUR DESIRE TO FACILITATE NEGOTIATIONS
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LIMA 07846 222259Z

IN ANY WAY POSSIBLE, BUT NOT TO THE POINT OF ASKING

MARCONA TO FOREGO COMPENSATION. I SAID THAT THIS IS CENTRAL ISSUE AND THAT UP UNTIL NOW THERE HAVE BEEN IN FACT NO NEGOTIATIONS BECAUSE GOP NEGOTIATORS HAVE NOT BEEN WILLING OR EMPOWERED TO DEAL WITH IT. I AGAIN URGED THAT GOP NEGOTIATORS BE INSTRUCTED TO SEARCH FOR FORMULA WHICH WOULD PROVIDE COMPENSATION WHILE ADVANCING PERU'S INTERESTS TO SELL ITS ORE, PROTECT ITS IMAGE, AND IMPROVE ITS IRON AND STEEL CAPACITIES. I SAID THAT IN MY VIEW NEW AND IMAGINATIVE APPROACHES CAN ONLY BE EXPLORED WITH MARCONA ITSELF, WHICH IS PREPARED TO SEARCH FOR SUCH SOLUTIONS. THE USG CAN ENCOURAGE THIS BUT CANNOT NEGOTIATE FOR THE COMPANY. IS IT NOT BETTER TO FIND A SOLUTION NOW THAN TO RETROGRESS TO A PRE-GREENE SITUATION WHICH MIGHT LEAD TO A GOVERNMENT SOLUTION TWO YEARS HENCE? I REVIEWED RECOURSES OPEN TO MARCONA IN THE ABSENCE OF SUCCESSFUL NEGOTIATIONS TOWARD COMPENSATION AND POINTED OUT PROBABLE NEGATIVE IMPACT OF THESE RECOURSES ON RELATIONS BETWEEN OUR TWO COUNTRIES AND ON PERU'S ACCESS TO INVESTMENT AND TO FIANNICIAL INSTITUTIONS.

3. ON THE POLITICAL SIDE, THE PERUVIAN OFFICIALS REFERRED TO POTENTIAL PROBLEMS THAT COMPENSATION COULD CREATE FOR THE NEW GOVERNMENT WITH THE PERUVIAN "ULTRAS". I SAID THAT IN MY VIEW THIS IS A QUESTION OF CHOICE BETWEEN APPEASING THE EXTREME LEFT OR BEING RESPONSIVE TO BROADER, LONGER TERM PERUVIAN INTERESTS IN THE AREAS OF PRODUCTION, CREDITS, AND INVESTOR CONFIDENCE. IN ADDITION, IT APPEARED THAT IN THE SAME WAY THAT GOP WAS ABLE TO RECTIFY OTHER MISTAKES OF FORMER PRESIDENT, IT COULD FIND A FORMULA TO RECTIFY THIS MISTAKE WHICH PROMISES TO BE EVEN MORE COSTLY.

4. HAVING SEEN FORMER MINISTER OF MINES FERNANDEZ MALDONADO JUST BEFORE MY VISIT, PRIME MINISTER VARGAS PRIETO WAS PRIMED WITH THE USUAL ANTI-MARCONA ACCUSATIONS STEMMING FROM THE ESTABLISHMENT OF INDEPENDENT SHIPPING AND SALES COMPANIES IN CONNECTION WITH THE PERUVIAN MINING OPERATION. I SAID THAT THE CORPORATE STRUCTURE HE REFERRED TO WAS TYPICAL OF LARGE INTERNATIONAL FIRMS AND THAT THIS FACT PER SE DID NOT PROVIDE GROUNDS TO ACCUSE
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CONFIDENTIAL

PAGE 03 LIMA 07846 222259Z

MARCONA OF MALPRACTICE AND TO EXPROPRIATE WITHOUT A FAIR CONSIDERATION OF THE COMPENSATION ISSUE. VARGAS PRIETO LISTENED CAREFULLY AND WILL HOPEFULLY BE PRIMED IF MARCONA IS SUBJECT OF DISCUSSION AT CABINET MEETING SEPTEMBER 23.

5. COMMENT: AS FOREGOING INDICATES, GOP APPEARS TO HAVE SHIED AWAY SOMEWHAT FROM PRESIDENT'S HEARTY SEMI-PUBLIC

ASSURANCE TO ME THAT MARCONA PROBLEM WOULD SOON BE
SETTLED (LIMA 7322), AND GOVERNMENT SEEMS PREPARED TO
LET MATTER REST FOR A TIME, PERHAPS PENDING DE LA FLOR'S
MEETING WITH THE SECRETARY. (COMPTON, WHO HAS RETURNED TO
LIMA, HAS INFORMED US THAT MEETING WITH COMMISSION SCHEDULED
FOR TODAY HAS BEEN CANCELLED WITH NO DATE SET FOR
ANOTHER.) WE WISH TO WITHHOLD JUDGMENT ON THE ADVISABILITY
OF MOVING TO GOVERNMENT-LEVEL NEGOTIATIONS; HOWEVER,
NEGOTIATIONS AT WHATEVER LEVEL CANNOT PROSPER UNTIL GOP
ITSELF COMES TO GRIPS WITH AND ACCEPTS FACT THAT COM-
PENSATION IS ESSENTIAL INGREDIENT OF ANY SETTLEMENT WHICH
WOULD BE ACCEPTABLE TO MARCONA AND HENCE US.
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